

## MEMORANDUM

**To: The Commission to Study Maine's Hospitals**

**From: Nancy Kane**

**Date: Friday, July 23, 2004**

**Subject: The Value of Standardized Reporting of Hospital Financial Data**

Several states require hospitals to file standardized reports of their audited financial statements, so that state authorities can efficiently compare key performance measures across hospitals in a meaningful way.<sup>1</sup> The types of things states standardize (and some reasons why) include:

- The reporting entity: some require hospital only; some require separate identification and reporting of non-hospital entities with substantial assets; some also request the health system as a consolidated entity (in order to compare “apples to apples”, and to be able to identify and quantify the sources of financial stress on hospitals, e.g. subsidizing physician practices, owning a for-profit joint venture in biotechnology, versus hospital-generated financial stress).
- The revenues (and expenses) to be considered “operating” versus “non-operating”, especially the reporting of investment income and return on equity investments or joint ventures (affects the calculation of operating and total margins; also facilitates identification of sources of financial stress).
- The definition of elements to be reported as non-income-related changes in net assets, and not as a revenue or expense : unrealized gains and losses, transfers to and from related entities, capital donations (again affects calculations of margins).
- The level of detail reported on the Statement of Financial Position (balance sheet), particularly with respect to:
  - affiliate transactions (permits a more detailed analysis of the impact of affiliates, the nature of those affiliates);
  - third party payment receivables and payables (permits analysis of the degree of conservatism in third party revenue recognition); and
  - the nature of long term debt (e.g. to understand how much debt is tax exempt, for purposes of clarifying who provides long-term capital funding; also useful for part of the analysis of assessing the value of hospital tax exemption).
- The level of detail reported in the Statement of Operations (income statement), particularly items disclosed only in footnotes in the audited statement, such as gross patient service revenue, contractual adjustments, and free care (permits calculation of price markups and overall discounts, also the level and percentage of gross revenue provided as free care); as well as the impact on net revenue of changes in estimated third party settlements and final settlements from prior years.

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<sup>1</sup> See, for instance, California, Massachusetts, New Jersey, Arizona, Florida, Maryland, for examples of how states standardize audited financial reports. MedPAC recently recommended that audited financials be reported in a standardized way in a revised Schedule G of the Medicare Cost Report.

- The level of detail and method of reporting the Statement of Cash Flows, so that reporting of operating, investing, and financing activities are classified in comparable ways across hospitals (permits detailed analysis of the long term capacity of hospital to meet its reasonable financial requirements; allows analyst to identify and assess the reasonableness of financial requirements, such as working capital, investment in capital assets, repayment of long term debt, subsidies to affiliates; shows standardized sources and uses of cash over time).